

AMENDED IN SENATE APRIL 23, 2015

**SENATE BILL**

**No. 490**

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**Introduced by Senators Beall and Huff**  
**(Coauthors: Senators Anderson, Bates, Cannella, Hall, Nguyen,**  
**Pavley, Stone, Vidak, and Wolk)**  
**(Coauthors: Assembly Members Chu and Salas)**

February 26, 2015

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An act to amend Section 4652.5 of the Welfare and Institutions Code, relating to developmental services.

LEGISLATIVE COUNSEL'S DIGEST

SB 490, as amended, Beall. Regional centers: audits.

Under existing law, the Lanterman Developmental Disabilities Services Act, the State Department of Developmental Services is authorized to contract with regional centers to provide services and supports to individuals with developmental disabilities. Existing law requires an entity that receives payments between \$250,000 and \$500,000 per year from one or more regional centers to obtain an independent audit or review of its financial statements and requires an entity that receives payments that are equal to or more than \$500,000 per year to obtain an independent audit. Existing law exempts payments made using usual and customary rates for services provided by regional centers from these requirements.

This bill would instead require an entity to obtain an independent audit or review report of its financial statements relating to payments made by regional centers if it receives payments between \$500,000 and \$2,000,000 from one or more regional centers and would authorize these entities to apply for, and require the regional center to grant, a 2-year exemption from this requirement if the regional center does not

find issues in the audit or review that have an impact on regional center services. The bill would also ~~instead~~ require an entity to obtain an independent audit if it receives payments that are equal to or more than \$2,000,000 and would authorize these entities to apply for, and require the regional center to grant, a 2-year exemption from the *audit* requirement if the audit resulted in an ~~unqualified~~ *unmodified* opinion, an ~~unqualified~~ *unmodified* opinion with ~~explanatory language~~, *additional communication*, or a qualified opinion with issues that are not material and pervasive. The bill would require a regional center to notify the department of any exemption it grants to an entity that receives a qualified opinion report. The bill would also exempt social security benefit payments from these requirements.

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. Section 4652.5 of the Welfare and Institutions  
2     Code is amended to read:  
3     4652.5. (a) (1) An entity that receives payments from one or  
4     more regional centers shall contract with an independent accounting  
5     firm to obtain an independent audit or review of its financial  
6     statements relating to payments made by regional centers subject  
7     to all of the following:  
8     (A) If the amount received from the regional center or regional  
9     centers during the entity's fiscal year is more than or equal to five  
10    hundred thousand dollars (\$500,000) but less than two million  
11    dollars (\$2,000,000), the entity shall obtain an independent audit  
12    or independent review report of its financial statements for the  
13    period. Consistent with Subchapter 21 (commencing with Section  
14    58800) of Title 17 of the California Code of Regulations, this  
15    subdivision shall also apply to work activity program providers  
16    receiving less than two hundred fifty thousand dollars (\$250,000).  
17    (B) If the amount received from the regional center or regional  
18    centers during the entity's fiscal year is equal to or more than two  
19    million dollars (\$2,000,000), the entity shall obtain an independent  
20    audit of its financial statements for the period.  
21    (2) This requirement does not apply to payments made using  
22    usual and customary rates, as defined by Title 17 of the California

1 Code of Regulations, for services provided by regional centers or  
2 social security benefit payments.

3 (3) This requirement does not apply to state and local  
4 governmental agencies, the University of California, or the  
5 California State University.

6 (b) An entity subject to subdivision (a) shall provide copies of  
7 the independent audit or independent review report required by  
8 subdivision (a), and accompanying management letters, to the  
9 vendoring regional center within 30 days after completion of the  
10 audit or review.

11 (c) Regional centers that receive the audit or review reports  
12 required by subdivision (b) shall review and require resolution by  
13 the entity for issues identified in the report that have an impact on  
14 regional center services. Regional centers shall take appropriate  
15 action, up to termination of vendorization, for lack of adequate  
16 resolution of issues.

17 (d) Regional centers shall notify the department of all qualified  
18 opinion reports or reports noting significant issues that directly or  
19 indirectly impact regional center services within 30 days after  
20 receipt. Notification shall include a plan for resolution of issues.

21 (e) For purposes of this section, an independent review of  
22 financial statements shall be performed by an independent  
23 accounting firm and shall cover, at a minimum, all of the following:

24 (1) An inquiry as to the entity's accounting principles and  
25 practices and methods used in applying them.

26 (2) An inquiry as to the entity's procedures for recording,  
27 classifying, and summarizing transactions and accumulating  
28 information.

29 (3) Analytical procedures designed to identify relationships or  
30 items that appear to be unusual.

31 (4) An inquiry about budgetary actions taken at meetings of the  
32 board of directors or other comparable meetings.

33 (5) An inquiry about whether the financial statements have been  
34 properly prepared in conformity with generally accepted accounting  
35 principles and whether any events subsequent to the date of the  
36 financial statements would have a material effect on the statements  
37 under review.

38 (6) Working papers prepared in connection with a review of  
39 financial statements describing the items covered as well as any  
40 unusual items, including their disposition.

(f) For purposes of this section, an independent review report shall cover, at a minimum, all of the following:

(1) Certification that the review was performed in accordance with standards established by the American Institute of Certified Public Accountants.

(2) Certification that the statements are the representations of management.

(3) Certification that the review consisted of inquiries and analytical procedures that are lesser in scope than those of an audit.

(4) Certification that the accountant is not aware of any material modifications that need to be made to the statements for them to be in conformity with generally accepted accounting principles.

(g) The department shall not consider a request for adjustments to rates submitted in accordance with Title 17 of the California Code of Regulations by an entity receiving payments from one or more regional centers solely to fund either anticipated or unanticipated changes required to comply with this section.

(h) (1) An entity required to obtain an independent audit or independent review of its financial statement pursuant to subparagraph (A) of paragraph (1) of subdivision (a) may apply to the regional center for, and the regional center shall grant, a two-year exemption from the independent audit or independent review requirement if the regional center does not find issues in the prior year's independent audit or independent review that have an impact on regional center services.

(2) An entity required to obtain an independent audit of its financial statements pursuant to subparagraph (B) of paragraph (1) of subdivision (a) may apply to the regional center for an exemption from the independent audit requirement, subject to all of the following conditions:

(A) If the independent audit for the prior year resulted in an ~~unqualified unmodified~~ opinion or an ~~unqualified unmodified~~ opinion with ~~explanatory language~~, *additional communication*, the regional center shall grant the entity a two-year exemption.

(B) If the independent audit for the prior year resulted in a qualified opinion and the issues are not material and pervasive, the regional center shall grant the entity a two-year exemption. However, the entity and the regional center shall continue to address issues raised in this independent audit, regardless of whether the exemption is granted.

1     (3) A regional center shall notify the department of any  
2     exemption it grants to an entity that receives a qualified opinion  
3     report.

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